

**BYLAWS OF
SOUTHERN MARKETING AGENCY, INC.**

**ARTICLE I
ORGANIZATION**

Section 1. Name: The name of this Association is SOUTHERN MARKETING AGENCY, INC. (hereinafter called "Association").

Section 2. Incorporation: The Association is incorporated pursuant to Chapter 272 of the Kentucky Revised Statutes (Section 272.1001 to 272.345) without capital stock.

Section 3. Office: The registered agent, registered office and the principal place of business of the Association shall be as filed from time to time with the Kentucky Secretary of State.

Section 4. Seal: The Association shall have a corporate seal which shall have inscribed thereon the name of the Association, the words "Corporate Seal" and the state of incorporation, "Kentucky."

Section 5. Purposes and Powers: The Association is organized for the purposes, and shall have and may exercise all the powers, as stated in the Articles of Incorporation and in these Bylaws, as the same may from time to time be amended.

**ARTICLE II
MEMBERSHIP**

Section 1. Qualifications: Membership in the Association shall be limited to lawfully organized cooperative associations of agricultural producers qualified under the provisions of the Capper-Volstead Act, 7 U.S.C. Section 291, as the same may now or hereafter be amended.

Section 2. Membership Applications and Agreements: All applications for membership in the Association shall comply with such uniform conditions as may be prescribed from time to time by the Board of Directors of the Association or by these Bylaws, shall be subject to the approval of said Board of Directors, and shall be subject to execution and delivery by applicant of a membership agreement (which may or may not also be a marketing agreement) containing such terms and conditions as said Board of Directors may from time to time prescribe.

Section 3. Withdrawal from Membership: Any member of the Association may withdraw from membership in the Association pursuant to and in accordance with such Membership Agreement with the Association.

Section 4. Valuation of Member's Interest: Upon expulsion, termination or withdrawal from the Association, the Board of Directors of the Association shall equitably and conclusively appraise the value of the withdrawing or expelled member's property interest in the Association and shall fix the amount thereof in money and shall determine the manner in which the Association shall pay such member the value of its interest.

ARTICLE III

MEMBERSHIP MEETINGS

Section 1. Regular Annual Meetings: The Association shall hold a regular annual meeting of members on the first Tuesday in February of each year, or such other day within sixty (60) days thereof, as may be determined by the Board of Directors each year, in the state where its principal place of business is transacted or in such other state as may be designated by the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may properly come before the meeting.

Section 2. Special Meetings: Special meetings of the members of the Association may be called by the President of the Association or by the Board of Directors, and it shall be the duty of the Board of Directors to call such special meeting when twenty-five percent (25%) of the members of the Association file with the Association's Secretary a petition demanding a special meeting and specifying the business to be conducted at such meeting. Special meetings of the members of the Association shall be held within or without the state at such place as may be designated by the Board of Directors calling such meeting or, in the absence of such designation, at the place where the Association transacts its principal business.

Section 3. Notice of Meetings: Notice of all meetings shall be mailed (or faxed) to each member of the Association at least ten (10) days prior to the meeting, and in the case of special meetings the notice shall state the purpose for which it is called. Waiver by a member of the Association in writing of notice of any regular annual or special meetings, whether before or after the time of such meeting, shall be equivalent to the giving of such notice. Attendance at any of such meetings shall constitute a waiver of notice thereof.

Section 4. Quorum and Representation: At any meeting of the members of the Association, a majority of the members of record present in person shall constitute a quorum for the transaction of any business. If a meeting is not organized because a quorum is not present, the members present may adjourn the meeting to such time and place as they shall determine, without new notice being given, except that in the case of any meeting at which directors are to be elected, such meeting shall be adjourned only from day to day until such directors have been elected and the members who are present in person at the second of any adjourned meeting at

which directors are to be elected, although less than a quorum as fixed by this section, shall nevertheless constitute a quorum for the purpose of electing directors.

Each member association may be represented by an individual, delegate or officer thereof duly authorized in writing. Unless such person is designated in writing to do so by a member association, the President of each member association shall then cast the vote of and represent such member at all meetings of members.

Section 5. Number of Votes and Voting: Each member of the Association shall be entitled to one (1) vote at any meeting of the members thereof, and the affirmative vote of not less than three-fourths (3/4) of the members present and voting thereon shall be required of any matter, unless otherwise specified herein. No voting shall be permitted by proxy or mail.

ARTICLE IV

BOARD OF DIRECTORS

Section 1. Number and Qualifications: The affairs of the Association shall be managed by the Board of Directors of not less than five (5), each of whom shall be an active member of a member association. The total number of directors shall be as follows:

- (a) Each member shall be entitled to at least one (1) board director;
- (b) Each member that pools 1.5 billion pounds or more per year of member milk through the Association shall be entitled to two (2) board directors;
- (c) Each member that pools 2.5 billion pounds or more per year of member milk through the Association shall be entitled to three (3) board directors;
- (d) Each member that pools 3.5 billion pounds or more per year of member milk through the Association shall be entitled to four (4) board directors; and
- (e) Each member that pools 4.5 billion pounds or more per year of member milk through the Association shall be entitled to five (5) board directors.

However, no member, regardless of the annual pounds of member milk pooled through the Association, shall be entitled to more than one-half (1/2) of the total number of directors.

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Section 2. Manner of Election:

(a) Each cooperative which is or becomes a member of Southern Marketing Agency, Inc. shall be entitled annually to nominate its board member or members and those who may serve as alternate directors in the absence of the regularly designated director. At each regular annual meeting of the members of the Association, the member associations shall elect a Board of Directors from the nominees presented by the member associations with each director elected to serve until the next ensuing annual meeting of the members of the Association or until his/her successor is duly elected and qualified.

(b) Any cooperative association becoming a member of the Association between the dates of regular annual meetings of members of the Association shall be entitled to nominate a member or members for election to the Board of Directors in accordance with Paragraph (a) of this Section. Upon election to the Board of Directors by the member association, each designated member shall serve until the next regular annual meeting of members of the Association or until his/her successor has been duly elected and qualified.

(c) In the event of a vacancy on the Board of Directors, occurring on account of death, resignation, or ineligibility, the member association represented by such person shall nominate a successor and certify his name to the Secretary of the Association. At the next meeting of the Board of Directors, the majority of the directors present and voting shall elect the person to fill the vacancy for the unexpired term or until the next regular or special meeting of the members, whichever occurs first.

(d) The term of office of any director shall automatically expire upon the termination of membership in the Association of the member association represented by such director.

Section 3. Additional Directors: A member cooperative association may petition the Board for additional directors, so long as the total number of directors representing such member cooperative does not exceed the number of directors which would be available to such member if voting were being made on a patronage basis. Board approval of such a petition for additional directors shall require three-fourths (3/4) affirmative vote of the directors present and voting.

Section 4. Special Duties: In addition to its ordinary duties, the Board of Directors, acting through an Operations Committee, under its general supervision and control, and composed of the Chief Executive Officer or Manager or his designee from each member organization, may have such Committee perform the following duties:

- (a) Establish price areas;

(b) Develop and announce a price per hundredweight and a butterfat price for each designated price area, keeping in mind historical relationships between and amongst the various pricing areas in which the members conduct their day to day business;

(c) Develop one or more pools in which the members can pool their sales and proceeds from such sales;

(d) Enter into contracts, as needed, for the procurement of needed supplemental milk supplies and coordinate the disposal of surplus milk;

(e) Coordinate, to the extent possible, the movement of milk between the member cooperatives; and

(f) Retain and compensate administrative personnel.

Section 5. Regular Meetings: A regular meeting of the Board of Directors for the selection of officers and the transaction of such other business as may properly come before the meeting shall be held each year immediately after the regular annual meeting of members of the Association at the place of such regular annual meeting of members, and no notice of such meeting shall be required. If such meeting is not so held immediately following the regular annual meeting of members of the Association in any year, such meeting shall be held as soon thereafter as practicable. Additional regular meetings of the Board of Directors shall be held at such places, and at such times as the Board may determine by resolution, and, if such resolution so provides, it may be held without further notice other than said resolution.

Section 6. Special Meetings: Special meetings of the Board of Directors may be held at such place, and at such times, as may be called by the President of the Association or, upon the unanimous consent of the Board of Directors.

Section 7. Notice of Meetings: Except as otherwise herein provided, notice of meetings of the Board of Directors shall be given either personally or by mail, and if by mail, such notice shall be sufficiently given and deposited in the United States mail not less than seven (7) days prior to such meeting, addressed to each of the directors-. Waiver by a director in writing of notice of any meeting, whether before or after the time of such meeting, shall be equivalent of the giving of such notice. Attendance of a director at a meeting shall constitute a waiver of notice thereof.

Section 8. Voting: Voting by proxy shall not be permitted at any meeting of the Board of Directors. Directors shall have one vote each, and the affirmative vote of not less than three-fourths (3/4) of the directors present and voting thereon shall be required of any matter, unless otherwise specified herein.

Section 9. Quorum: A majority of the Board of Directors shall constitute a quorum for the transaction of business at all meetings thereof. The directors shall act only as a Board and the individual members shall have no powers as such.

Section 10. Executive Committee and Other Committees: The Board of Directors may, in its discretion, by resolution duly adopted by a three-fourths (3/4) majority of the members of the Board present and voting, appoint an Executive Committee and may allot to such committee all of the functions and powers of the Board, subject to the general direction and control of the Board, and may appoint such other committees, in addition to the Operations Committee composed of the Chief Executive Officer or Manager of each member association, or its designee, as may be needed from time to time, and subject to the general direction and control of the Board.

Section 11. Compensation: Directors of the Association may receive such reasonable compensation for their services at all meetings of the Board of Directors as may be fixed, or a fixed sum and expenses for attendance, by resolution of the Board of Directors. The Board of Directors shall also have the power to fix a reasonable per diem and expense allowance for directors while they are in performance of official duties and business of the Association.

Section 12. Confidentiality: In addition to all other duties imposed by law, the Association's Articles of Incorporation or the Bylaws, each director shall keep all information obtained at any meeting or through such directorships confidential and personal except to the extent disclosure is required by law, authorized by the Board of Directors or necessary to inform members of the Association.

ARTICLE V

OFFICERS

Section 1. Elected Officers: The elected officers of the Association shall be a President and one or more Vice Presidents, who shall come from the membership of the Board of Directors, and a Secretary and a Treasurer, who need not be members of the Board. Any two such offices may be held by the same person, except the offices of President and Vice President. Such officers shall be and remain directors of the Association during their term of office except that the Secretary and/or Treasurer need not be directors.

Section 2. Election and Term of Office: All elected officers of the Association shall be elected by and subject to the direction and supervision of the Board of Directors. Such election may be made at any regular or special meeting of the Board. Each elected officer shall hold office until the next regular meeting of the Board of Directors held immediately following the regular annual meeting of the members of the Association and until his successor shall have been duly elected and has accepted his election or until his death, resignation or removal from office.

Section 3. Appointed Officers and Agents: The Board of Directors may, from time to time, appoint such other officers or agents, including one or more Assistant Secretaries and Assistant Treasurers, as it may deem necessary and advisable to hold office, for such period, and to have such authority and perform such duties as the Board of Directors may from time to time determine.

Section 4. Removal and Resignations: All elected officers of the Association may be removed with or without cause from office by vote of three-fourths (3/4) of the whole Board of Directors at any regular or special meeting. All appointed officers and agents may be removed from office by the Board of Directors. Any elected officer may resign at any time by giving notice to the President or to the Secretary of the Association, such resignation shall take effect upon receipt thereof by such officer, and the acceptance of such resignation shall not be necessary to render it effective.

Section 5. Vacancies: Any vacancy in any office because of death, resignation or removal shall be filled for the unexpired portion of the term at any regular or special meeting of the Board of Directors, by a vote of a three-fourths (3/4) majority of the Board of Directors present and voting at such a meeting.

Section 6. The President - Authority and Duties: The President shall perform all duties incident to the office of President and see that all orders and resolutions of the Board of Directors are carried into effect. He shall preside at all meetings of the members of the Board of Directors at which he is present, and he shall perform such other duties assigned to him by these Bylaws or by the Board of Directors; provided, however, that if a Chairman of the Board is appointed he shall preside at all meetings of the members or Board of Directors at which he is present.

Section 7 The Vice Presidents - Authority and Duties: The Vice Presidents shall have such power and perform such duties as the Board of Directors may prescribe, or as the President may delegate, and in the case of the absence, death or disability of the President, temporarily act in his place, and when so acting shall have all the powers of the President. In the event a Chairman of the Board and Vice Chairman are appointed, they shall be substituted for the President and Vice President with respect to presiding at meetings of the members of the Board of Directors.

Section 8. The Secretary - Authority and Duties: The Secretary shall record all of the proceedings of the meetings of the Association and directors in a book to be kept for that purpose; shall prepare and make, at least ten (10) days before the annual meeting of the members, a complete list of members entitled to vote at such meeting, arranged in alphabetical order, such list to be produced and kept at the time and place of the meeting, subject to inspection of any representative of any member who may be present; shall cause all notices to be duly given in accordance with the provisions of these Bylaws and as required by law; shall act as custodian of the records and the seal of the Association and cause such seal to be affixed to all

duly authorized; shall see that the books, reports, statements, certificates and all other documents and records of the Association required by law are properly kept and filed; and in general, shall perform all duties incident to the office of Secretary and such other duties as may from time to time be assigned to him by these Bylaws or by the Board of Directors or the President.

Section 9. The Treasurer - Authority and Duties: The Treasurer shall be the financial officer of the Association, and shall, subject to the direction of the Board of Directors, have charge of and supervision over and be responsible for the funds, securities, receipts, and disbursements of the Association; shall keep the financial records of the Association; shall deposit all monies and valuables in the name of and to the credit of the Association in such banks or depositories as the Directors shall designate; shall render to the Board of Directors whenever requested, a statement of the financial condition of the Association, and shall render a full financial report at the annual meetings of the members as called upon to do so; and in general shall perform all duties incident to the office of Treasurer, and such other duties as may from time to time be assigned to him by these Bylaws or by the Board of Directors or the President.

Section 10. General Manager - Duties of Manager in General: In the event a General Manager or Manager is appointed by the Board of Directors, he shall under the direction of the Board of Directors have general charge and management of the ordinary and usual business operations of the Association. The Manager shall deposit all money belonging to the Association which comes into his possession in the name of the Association in a depository selected by the Board of Directors and upon authorization by the Board of Directors, shall make or direct all disbursements by check therefrom for the ordinary and necessary expenses of the business, and in the manner and form prescribed by the Board of Directors. Upon appointment of his successor, the Manager shall deliver all money and property belonging to the Association which he has in his possession or over which he has control.

The Manager shall be required to maintain all records and accounts of the business in such a manner that the true and correct condition of the business may be ascertained therefrom at any time. He shall render annual periodical statements in the form and in the manner prescribed by the Board of Directors. He shall carefully preserve all books, documents, correspondence and records of whatever nature or kind pertaining to the business which may come into his possession, subject to the terms of any document retention schedule adopted by the Board of Directors.

The Manager shall have the authority to employ, fix the compensation, supervise, and terminate the employment of all subordinate employees of the Association.

Section 11. Compensation: Compensation of the officers shall be determined by the Board of Directors, except that the Board of Directors may delegate to any officer or agent the power to fix compensation of any officers or agents appointed in accordance with the provisions of Section 3. No officer shall be prevented from receiving compensation by reason of the fact that he is also a director of the Association.

Section 12. Surety Bonds: The Board of Directors may require any officer or agent of the Association to execute on behalf of the Association a bond in such amount and with such surety or sureties as the Board of Directors may direct, conditioned upon the faithful performance of the duties of such officer or agent to the Association, including responsibility for accounting for all property, funds, or securities of the Association which may come into his custody or possession.

ARTICLE VI

FINANCES

Section 1. Assessments: The Board of Directors may, from time to time, make regular or special assessments on its members on any appropriate basis as the Board may determine. Such assessments are payable in cash and shall be due and payable as the Board may determine. Members shall be assessed proratably on the basis of patronage.

ARTICLE VII

DISTRIBUTION OF REVENUE

Section 1. Allocation: All assets, savings and earnings of the Association shall be allocated to the patrons of the Association, both members and non-members, at the close of each fiscal year as is possible or practicable. If in any fiscal year there are savings in one department and a loss in another department, such savings shall be applied to the wiping out of such loss insofar as possible.

If in any fiscal year the Association shall incur a net operating loss which is recognizable for income tax purposes, the Board of Directors may at its discretion make carry-backs and carry-forwards for accounting and income tax purposes, and the Board shall have full authority to charge off such loss in such manner as will afford the Association the maximum benefit for accounting and tax purposes.

Section 2. Basis of Allocation: All allocations shall be made to patrons, both members and non-members, on a basis of the proportionate contribution or patronage which such patrons have had during the immediately preceding fiscal year of the Association.

Section 3. Consent With Respect to Distributions Made to Members: Each cooperative that hereafter applies for and is accepted to membership in this Association and each member of this Association on the effective date of these Bylaws who contributed as a member after such date shall, by such act alone, consent that the amount of any distributions with respect to his patronage, which are made in written notices of allocation (as defined in 26 U.S.C. 1388) and which are received by him from the Association, will be taken into account by him at their stated dollar amount in the manner provided in 26 U.S.C. 1385(a) in the taxable year in which such written notices of distribution are received by him.

Section 4. Dissolution: In the event of dissolution or liquidation of the Association, any assets belonging to the Association shall be distributed to the members of the Association, on the basis of their percentage of contribution for operating expenses during the three (3) preceding calendar years.

ARTICLE VIII

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS

Section 1. Indemnification of Directors, Officers, Employees or Agents: The Association shall indemnify any and all of its directors, officers, employees or agents or former directors, officers, employees or agents against claims, liabilities, expenses and costs actually and necessarily incurred by him or his estate in connection with, or arising out of, any action in which he is made a party by reason of his being, or having been, an officer, director, employee or agent, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Association, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful; provided the right of indemnification herein provided for shall also apply in respect to any amount paid in compromise of any such claim asserted against such director, officer, employee or agent (including expenses and costs actually and necessarily incurred in connection therewith), provided the Board of Directors of the Association shall have first approved such proposed compromise settlement and determined that the director, officer, employee or agent involved was acting in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Association.

Section 2. Advance of Expenses and Costs: Expenses and costs (including attorney's fees) incurred by a director, officer, employee or agent in defending an action as aforesaid may be paid by the Association in advance of the final disposition of such action upon receipt of an undertaking by or on behalf of such director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Association.

Section 3. Liability Insurance: The Association shall have the power to purchase and maintain insurance on behalf of any person who is an officer, director, employee or agent of the Association, or is or was serving at the request of the Association as a director, officer, employee or agent of another association, corporation, partnership, joint venture, trust or other enterprise or entity, against any liability asserted against him or incurred by him in any such capacity or arising out of his status as such, whether or not such association would have the power to indemnify him against such liability under the provisions of this section.

ARTICLE IX

FISCAL YEAR

Except as from time to time and otherwise provided by the Board of Directors, the fiscal year of the Association shall be the calendar year.

ARTICLE X

DISCIPLINARY ACTION

Section 1. Disciplinary Committee: At the request of any officer or director, disciplinary action may be taken against any member as a result of a breach of its membership agreement. In such event, the Board of Directors shall appoint three or more persons employed by, or a member of, a member of the Association to act as a Disciplinary Committee. Such persons may, but need not, be directors of the Board, but cannot be associated with the officer or director requesting disciplinary action, nor associated with the member against whom the disciplinary action is sought.

Section 2. Hearing: The Disciplinary Committee shall hold a hearing to determine (a) whether a breach of the membership agreement has occurred and (b) the disciplinary action to be taken. Evidence may be presented by any officer or member which is relevant to the issue of whether a breach has occurred or the disciplinary action to be taken. The Disciplinary Committee shall have the right to issue such rules of evidence or procedure to be followed at the hearing, provided such rules are presented to all interested parties at least ten (10) days prior to the hearing.

Section 3. Findings: The findings of the Disciplinary Committee shall be final and binding on the Association and the member against whom disciplinary action is sought, but the Board of Directors by unanimous vote of those present may lessen the disciplinary action adjudicated by the Disciplinary Committee.

ARTICLE XI

AMENDMENT TO BYLAWS

The Bylaws of the Association may be amended, changed or altered at any time by the affirmative vote of not less than three-fourths (3/4) of the members of the Board of Directors present and voting at any regular or special meetings of the Board of Directors duly called and held at which notice thereof is given specifying the proposed amendment, change or alteration.